

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTH KENTUCKY	)	
RURAL ELECTRIC COOPERATIVE	)	
CORPORATION OF SOMERSET, KENTUCKY	)	
FOR AN ORDER AUTHORIZING AN INCREASE	)	CASE NO. 89-040
IN ITS RETAIL RATES, APPLICABLE TO	)	
ALL CONSUMERS	)	

O R D E R

IT IS ORDERED that South Kentucky Rural Electric Cooperative Corporation ("South Kentucky") shall file the original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no

later than May 19, 1989. If the information cannot be provided by this date, South Kentucky should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 2

1. A review of South Kentucky's application of March 31, 1989 reveals that several referenced items of documentation have not been included. These items include:

- a. Exhibit J - The explanation for adjustment 11.
- b. Exhibit J - The additional page referenced in the explanation for adjustment 14.
- c. Exhibit J - The explanation for adjustment 15.
- d. Exhibit 6, Schedule 2 - The work sheet used in the determination of method, rotation type, and amount for the Capital Credit Rotation Procedures.

Provide the omitted documentation. Include all supporting documentation, workpapers, and calculations used to make the adjustments.

2. In the Commission's Order of March 8, 1989, South Kentucky was ordered to provide information which would support and clarify its application. A review of those responses revealed the following omissions:

- a. The name of the witnesses who would be responsible for responding to questions relating to the responses were not provided.

b. Item 5 requested a breakdown of advertising expenses. The information provided was not presented in the format requested and there was no explanation as to the purpose and expected benefit of the expenditures.

c. Item 15 requested information concerning the most recent annual members' meeting. The response did not provide the number of members in attendance nor the number of members voting for new board members.

Provide the omitted information in the formats requested.

3. With reference to Exhibit H, page 4 of 5, concerning South Kentucky's proposal to remove the patronage capital assigned by United Utility Supply ("United") and the Kentucky Association of Electric Cooperatives ("KAEC"), provide the following:

a. An explanation of why the patronage capital assigned balances for United and KAEC do not agree with the amounts reported in South Kentucky's 1988 Annual Report.

b. An explanation of why the patronage capital assigned by the Southeastern Data Cooperative, Inc. ("Southeastern") was not included in the proposed adjustment. Also explain why the Southeastern assigned capital credits were included in the balance for the National Rural Utilities Cooperative Finance Corporation ("CFC").

c. A detailed explanation of the basis for the statement "These investments have been reduced to zero value due to inability of organizations to redeem the allocated capital credits."

d. Copies of the bylaws from United, KAEC, and South-eastern concerning the policies and procedures for the assignment and payment of capital credits.

e. For each organization allocating capital credits to South Kentucky, prepare a schedule of the capital credit activity. The schedule is to cover the test year and the 5 previous calendar years. For each organization, the schedule should show:

(1) The beginning balance of capital credits for the year.

(2) The total capital credits assigned to South Kentucky in that year.

(3) The total amounts paid on capital credits.

(4) Any other adjustment activity, including an explanation of the adjustment.

(5) The ending balance of capital credits for the year.

In addition, identify the account or subaccount used to record the activity for each assigning capital credit organization.

4. With reference to Exhibit H, page 5 of 5, concerning South Kentucky's proposal to record the increase in members' equity which resulted from an increase in net margins due to normalization adjustments, provide an explanation of why, if this proposal reflects an increase to members' equity, was it shown as a decrease to members' equity on page 2 of 5 in this exhibit.

5. With reference to Exhibit J, pages 4 and 5 of 19, concerning South Kentucky's proposed adjustment to payroll, provide the following:

a. The detailed workpapers and calculations used to determine the wages and salaries as of December 31, 1988 as referenced on page 5 of 19 of this exhibit. If the workpapers do not include the following information, provide this information for each employee:

(1) The actual regular hours worked during the test year.

(2) The actual overtime hours worked during the test year.

(3) The test-year-end wage rate for each employee and the date of the last increase.

(4) The wage rates in effect as of January 1, 1989 and March 31, 1989.

(5) A calculation of the percent of increase granted during the test year.

These workpapers should identify all the employees as either full-time, part-time or summer. All employees terminated during the test year should be identified, as well as those employees who replaced terminated employees during the test year.

b. Date when the board of directors approved the longevity and inflation wage rate increases. If the board did not make the approval, explain the approval procedure.

6. With reference to Exhibit I and the John J. Gillen testimony ("Gillen Testimony"), Appendix 1, concerning the meter reading adjustment, provide the following:

a. Copies of the contracts for meter reading services in effect for calendar year 1988, the current contract, and the contract including the rate change effective in November 1989.

b. The workpapers which support the determination that 475,054 meters were read in the test year.

7. With reference to Exhibit J, page 6 of 19, concerning the expensing of the survey and investigation charges, provide the following:

a. The account number in which the expense is to be recorded.

b. A copy of the board minutes deciding to reject the bids.

c. An explanation of whether this would be a recurring or nonrecurring expense for South Kentucky.

8. With reference to Exhibit J, page 7 of 19, concerning the removal of postage and printing costs for water districts from test-year expenses, provide the following:

a. The proposed adjustment of \$1,259 is shown as a reduction to sales expense in Exhibit I; yet, in the revenue and expense detail provided in Exhibit X, the only account referring to receipts and collection expense for water systems is a consumer accounts expense and shows a credit balance of \$8,939.78. Provide an explanation to clarify the nature of this proposed adjustment and how the amount of \$1,259 was determined.

b. A detailed explanation of the services provided to the water districts under postage and printing and how these services are reimbursed to South Kentucky.

c. A detailed schedule by water district of all the expenses incurred and reimbursements received for services South Kentucky provided the water districts in the test year. The schedule should include the date of the transaction, nature of the service, and voucher, check or other document reference.

d. An explanation of why the expenses and reimbursements for these services should be recorded in the operating expense account of South Kentucky rather than recorded as merchandising, jobbing and contract work accounts.

9. With reference to Exhibit J, page 9 of 19, concerning the proposed adjustments to the employee fringe benefits, provide the following:

a. The detailed workpapers and calculations which support the indicated adjustments. The workpapers should include, at a minimum:

(1) The calculations used to arrive at the 1988 and 1989 annual bill,

(2) The number of South Kentucky employees enrolled or covered in each fringe benefit, and

(3) Supporting documentation which formed the basis for each increase.

If the existing workpapers lack this information, provide this information.

b. Indicate the accounts or subaccounts in which the 1988 expensed portion of these costs were recorded.

c. An explanation of why the capitalization rate is different in 1989 from the one used in 1988. No change to this rate was proposed in the payroll adjustment. Include in the explanation the calculations and assumptions used to determine the 1989 capitalization rate.

10. With reference to Exhibit J, page 12 of 19, concerning the proposed adjustment to the commercial insurance expense, provide the following:

a. The insurance policy premium notices from all the commercial insurance coverage for the periods 1987-88, 1988-89, and 1989-90. Include an identification of the types of policies included.

b. The calculations for any capitalization of the insurance costs or allocation of insurance costs to transportation clearing accounts.

c. A detailed explanation of how South Kentucky secures its commercial insurance coverage.

11. With reference to Exhibit J, pages 13 and 14 of 19, concerning the proposed adjustment to depreciation expense, provide the following:

a. The \$136,106 in actual test-year depreciation expense identified as Non-Utility Operation is recorded in Account No. 403.70, Depreciation Expense - General Plant, in the response included in Exhibit X. Identify what the depreciation expense is



related to and whether the expense is for utility or non-utility assets.

b. A breakdown of the normalized depreciation expense of \$1,784,432 into the three categories shown on page 13 of 19. Include all workpapers and calculations which support the figures presented in the breakdown.

c. An explanation of the reference shown as the line item "Clearing to Expense (1)."

12. With reference to Exhibit J, page 15 of 19, concerning the proposed amortization adjustments, provide copies of the wage and salary plan study and any studies conducted for the preparation of this rate case.

13. With reference to Exhibit J, pages 16 and 17 of 19, concerning the proposed adjustment to the payroll taxes, provide the following.

a. The detailed workpapers and calculations used to determine the adjustments to the payroll taxes. At a minimum, these workpapers should include:

(1) The base wages and salaries used to calculate the taxes, with an explanation of how the base wages and salaries were determined.

(2) The tax rates in effect at December 31, 1988, January 1, 1989, and March 31, 1989.

(3) Any other assumptions used to calculate the proposed adjustments.

If the existing workpapers lack this information, provide the information.

b. A detailed explanation of why the proposal does not show the capitalized and expensed portions of the actual expense, normalized expense, and the capitalization rate used.

14. With reference to Exhibit J, page 18 of 19, concerning the exclusion of certain expenses for ratemaking, explain the nature of the expenses charged to Account No. 426.30, Penalties.

15. With reference to Exhibit T, page 2 of 4, concerning the actual and estimated costs of this rate case, provide the following:

a. For the costs actually incurred as of test-year end and as of March 31, 1989, prepare a detailed schedule of expenditures. This schedule should include, at a minimum, the date of the transaction, check number or other document reference, the vendor, amount, a description of what services were performed, and the account number the expenditure was recorded in. Include copies of the invoices received from the vendors.

b. For the total costs to be incurred, prepare a detailed explanation of how these estimated totals were determined. Include all supporting workpapers and calculations with the explanation.

c. An updated schedule of Exhibit T, page 2 of 4, as of the end of each month since March 31, 1989. For actual costs, provide the same information as requested in (a) above. Submit this schedule each month during the course of this proceeding.

16. Concerning employee benefits, prepare a schedule which includes all the benefits available to South Kentucky's employees, the number of employees at test-year end covered under each

benefit, the test-year-end actual cost of each benefit, the amount of the cost capitalized, the amount of the cost expensed, and the account numbers in which the capitalized or expensed costs were recorded.

17. With reference to Exhibit W:

a. Page 9 of 30, concerning the Non-Utility Property accounts, identify the non-utility property holdings of South Kentucky and describe the types of non-utility activities that South Kentucky is engaged in through these holdings.

b. Page 14 of 30, concerning the S-5 and S-12 loan programs, provide a detailed explanation of the purpose and functions of these loan programs. Include the details of interest rates, loan terms, borrower qualifications, and life of the individual loans in the explanation.

18. With reference to Exhibit X, page 2 of 18, concerning Other Electric Revenues, for each of the listed accounts, identify the source and nature of the revenues recorded therein.

19. With reference to Exhibit X, pages 3 through 16 of 18, concerning the detailed income and expense accounts, provide a thorough explanation of the reasons for the increase or decrease in the account balance at test-year end over the previous year for the following accounts:

- a. Account No. 583.20, Overhead Line Expense - PCB.
- b. Account No. 585.00, Street Lighting Expense.
- c. Account No. 586.00, Meter Expenses.
- d. Account No. 587.00, Customer Installation Expense.

e. Account No. 588.00, Miscellaneous Distribution Expense.

f. Account No. 593.00, Maintenance - Overhead Lines.

g. Account No. 593.50, Maintenance - Overhead Lines R/W.

h. Account No. 596.00, Maintenance - Street Lighting.

i. Account No. 908.00, Customer Assistance Expense.

j. Account No. 909.00, Informational and Instructional Advertising Expense.

k. Account No. 928.00, Regulatory Commission Expense.

l. Account No. 930.20, Miscellaneous General Expense.

m. Account No. 932.00, Maintenance, General Plant.

n. Account No. 417.00, Revenue from Non-Utility Operations (Interest S-5).

20. With reference to Exhibit X, concerning South Kentucky's Electric Thermal Storage ("ETS") program, provide a description of the types of transactions recorded in the following accounts:

a. Account No. 587.01, Customer Installation Expense - ETS.

b. Account No. 587.02, Customer Installation Expense - ETS (Credit).

c. Account No. 415.01, Revenue from Merchandising - ETS Heaters.

d. Account No. 416.02, Cost of Merchandising - ETS Heaters.

Include in the description an explanation of why the revenues and expenses related to this program have decreased from the levels reported for calendar year 1987.

21. With reference to Exhibit X, concerning Account No. 587.10, Customer Inspection (Receipts), provide a detailed schedule of the expenditure and receipt activity for this account during the test year. For each transaction, the schedule should show the date of the transaction, a document reference, the amount of the transaction, and a description of the transaction such as the type of inspection work performed.

22. With reference to Exhibit X, concerning the test-year amounts reported for meter reading expenses, provide the following:

a. An explanation of the difference between transactions recorded in Account No. 902.00, Meter Reading Expense, and those recorded in Account No. 902.10, Contract Meter Reading.

b. An explanation of why the test-year-end balance in the contract meter reading account does not agree with the expense shown in Appendix 1 of the Gillen Testimony.

23. In November 1988, South Kentucky became a shareholder in Kentucky Telecommunications, Inc. ("KTI"). With reference to Exhibit X, identify any revenues or expenses relating to South Kentucky's ownership in KTI that are reported in this exhibit. The identification should include the date of any transaction, documented reference, amount, account in which the transaction was recorded, and a description of the transaction. Include a complete description of any allocations used.

24. With reference to Exhibit 2, concerning South Kentucky's annual audit report, provide an explanation of why the report is for the year ending August 31, 1988, when the fiscal year ended for South Kentucky on December 31, 1988.

25. With reference to Exhibit 6, Schedule 2, concerning South Kentucky's equity management plan:

a. Explain how South Kentucky has utilized this equity management plan in establishing its revenue requirements in this case.

b. Provide a copy of South Kentucky's equity management plan that was in effect prior to March 23, 1989.

c. Provide a copy of the "CFC Equity Management Plan" referenced on page 2 of 3 in Schedule 2.

26. With reference to Exhibit 6, Schedule 2, provide the following:

a. Concerning the policy section on page 1 of 3, define what components are included in the total capitalization. If any capital credits are excluded, include an explanation of why the capital credits were excluded.

b. Concerning the provisions section beginning on page 1 of 3, identify what specific goals South Kentucky has adopted under the equity management plan, other than a "Modified TIER" of 2.25 and a Debt Service Coverage Ratio ("DSC") of 1.25.

c. Concerning the provisions section beginning on page 1 of 3, provide the dollar amounts South Kentucky has currently established for these factors:

(1) Required working capital.

(2) Required cash reserve.

(3) Funds necessary for debt retirement.

(4) Loan funds balances and sources necessary to meet needed plant additions.

d. Concerning section A(5) on page 2 of 3, explain what South Kentucky means by "Modified TIER" and how this TIER and the DSC are to be calculated.

e. Concerning section B on page 2 of 3, provide the rotation period for capital credit rotation envisioned under this plan and explain why the rotation period was not stated in this plan.

f. Concerning section B on page 2 of 3, explain South Kentucky's reasoning concerning the statement ". . . rotate Capital Credits to the members under the various conditions as stated and as modified and/or rescinded annually by the Board."

g. Concerning the capital credit rotation procedure on page 3 of 3, explain what is meant by the term "Modified TIER" and "Modified DSC" and how these are calculated.

27. With reference to Exhibit 8, Schedule 2, page 2 of 2, line 15, concerning the percent of overtime hours to regular hours, explain why this percentage has slowly increased over the past 6 years.

28. With reference to Exhibit 9, page 1 of 27, concerning South Kentucky's schedule of informational and institutional advertising, provide the following:

a. A detailed explanation of how costs were allocated to advertising expenses. Identify the costs which were allocated

and include a thorough description of the allocation methodology used and all workpapers which support the costs that have been allocated.

b. Indicate whether the \$9,700 listed for Incentives - Heat Pumps represents the actual total cost or the net cost reflecting those costs shared with East Kentucky Power Cooperative, Inc. ("EKPC"). Also, provide South Kentucky's policies on these incentives and examples of the information supplied to interested consumers.

c. A detailed explanation of the nature of the following expenses classified as advertising expenses:

(1) Item 4, Youth Program - American Private Enterprise.

(2) Item 11, Safety Training Expenses.

(3) Item 12, Newspaper and Magazine Subscriptions.

(4) Item 13, Supplies (Allocation of Mainframe Computer Facilities).

(5) Item 14, Kentucky Retail and Usage Tax.

(6) Item 15, Sale of Code Books.

(7) Item 16, DP and Office Equipment Lease and Maintenance.

(8) Item 18, DP Software.

29. With reference to Exhibit 13, concerning the outside services employed, provide the following:

a. A description of the services provided in the test year by J. B. Johnson, Jr., and M. D. Harris. Include a copy of any policy, agreement, contract, or other documentation which



explains the nature and types of reimbursement that are to be paid Mr. Johnson and Mr. Harris.

b. Indicate who is covered by the Blue Cross/Blue Shield insurance policy referenced in the exhibit. Include an explanation of what type of coverage is secured and the type of plan carried. If South Kentucky provides medical insurance coverage for its attorney, explain why this is an appropriate cost for rate-making purposes, including the benefits to the utility.

c. Indicate who is covered by the National Rural Electric Cooperatives Association ("NRECA") 24-hour accident insurance coverage referenced in the exhibit. Include an explanation of what type of coverage is secured and the type of plan carried. If South Kentucky provides accident insurance coverage for its attorney, explain why this is an appropriate cost for rate-making purposes, including the benefits to the utility.

d. A detailed explanation of the services provided by Patterson and Dewar, engineers.

e. Identify any expense listed in this exhibit which is an expense of the current rate case. Include a thorough explanation of each transaction.

f. A detailed description of the following transactions and an indication of whether the transaction is of a recurring or nonrecurring nature:

(1) Item 59, Perdue and Lozano Case.

(2) Items 71 to 74, Bylaws Meeting and Expenses.

(3) Items 108 and 122, John Prather - Attorney Advice Loan Program.

(4) Item 164, Bob Neal - Christmas Gift.

(5) Items 179 and 181, Attorney Christmas Bonus.

30. With reference to Exhibit 14, page 3 of 3, concerning the annual meeting expenses, provide the following:

a. An explanation of why the expenses for Employee Labor and Overhead and Meals - Employees and Guests increased over the previous year's expense.

b. A detailed schedule of the items included in the \$2,236.61 shown as Mowing Grass and Other Site Costs. The schedule should include the transaction date, document reference, payee, amount, and a description of the transaction. Include an explanation of why these expenses increased in excess of 700 percent over the previous year and why these expenses should be charged to the annual meeting expense rather than operating and maintenance costs of South Kentucky's farm.

c. For each of the following expenditures, describe the purpose of the item, indicate whether it is a recurring or non-recurring transaction, and explain why the costs should be included for rate-making purposes.

(1) Item 3, Nite Lights to Members.

(2) Item 12, 50th Anniversary Sign.

(3) Item 16, Children's Rides.

31. With reference to Exhibit 15, indicate when the furnished bylaws were adopted by South Kentucky.

32. With reference to Exhibit 19, concerning the director's fees and expenses, provide the following:

a. Identify James Wilson, who is shown as a director of South Kentucky but is not listed in Exhibit 18 or in the bylaws filed as Exhibit 15. Explain why fees and expenses have been paid to Mr. Wilson throughout the test year.

b. The descriptions for the following Other Meetings transactions listed on pages 2 through 30 of 30:

(1) For Director Massengale, page 26 of 30, line 5 and page 27 of 30, line 6.

(2) For Director Shearer, page 13 of 30, line 19 and page 14 of 30, lines 10 and 12.

(3) For Director Stephens, page 10 of 30, line 8.

(4) For Director Hogue, page 2 of 30, line 15.

c. For the insurance premium payments listed for each director, identify the carrier of the particular coverage, an explanation of the type of coverage secured, and the type of plan carried.

d. Indicate whether any of the listed expenses in this exhibit include costs for the director's spouse. If such expenses are included, provide a detailed schedule, similar in layout to page 2 of 30, listing the expenses for director's spouses.

e. Director Stephens is South Kentucky's representative on the EKPC Board. Explain whether any of his expenses or fees relating to his service on the EKPC Board are paid by South Kentucky. If any expenses or fees are paid by South Kentucky, provide the amount for the test year.

f. A detailed explanation of why Christmas Bonuses and the cost of Christmas Gifts should be included for rate-making purposes.

g. A detailed explanation of the transaction listed on page 8 of 30 for Director Gore, which is described as "Miscellaneous Expense for Directors per 1988 Budget."

33. With reference to Exhibit 19, provide a copy of the policies of the cooperative specifying the compensation of directors and a schedule of standard director's fees, per diems, and other compensation in effect during the test year. If changes occurred during the test year, indicate the effective date and the reason for the changes.

34. With reference to the Gillen Testimony, provide a copy of the most recent correspondence from the NRECA retirement system concerning the expiration date for the current moratorium.

35. Provide the following information concerning the calculation of property taxes:

a. A copy of the 1988 Notice of Assessment.

b. The 1988 and 1989 tax year assessments (Form K), as determined by the Kentucky Revenue Cabinet which are based upon the plant in service as of December 31, 1987 and December 31, 1988, respectively.

c. The 1988 Certification of Public Service Company Property Assessment (Form 61A-200J) for each county.

d. The 1988 Real Estate and Tangible Personal Property tax rate for each taxing district.

e. The actual tax bills which equal the test-year amount of \$231,157.11.

f. A schedule of the idle services of South Kentucky as of December 31, 1988, by county.

g. The book and assessed value for all of South Kentucky's motor vehicles for the 1988 tax year (balances as of December 31, 1987).

h. The book and assessed value for all of South Kentucky's motor vehicles for the 1989 tax year (balances as of December 31, 1988).

i. An explanation of how South Kentucky determined the property tax accrual amounts shown in Exhibit X, page 11 of 18, Account No. 408.10.

j. A schedule showing the assessment of South Kentucky's farm, rental house, and other non-utility property for the 1988 and 1989 tax years (balances as of December 31, 1987 and December 31, 1988, respectively). Indicate if property taxes for the non-utility property were included in the property taxes paid in 1988 (Account No. 408.10) and indicate the amount of taxes paid.

36. Furnish a billing analysis of the proposed rates using the test-period actual billing determinates. (Per Exhibit M).

37. In Exhibit I, adjustment (2), was the substation cost included in this adjustment?

38. In Exhibit I, furnish a detailed breakdown of the test-period purchase power cost of \$22,167,613, such as the following:

a. Number substations at EKPC cost.

b. Total KWH at EKPC cost.

c. Total KW at EKPC cost.

39. Furnish copies of invoices from EKPC supporting the test-period purchase power cost of \$22,167,613.

40. Provide the most recent embedded cost-of-service study performed by or for South Kentucky. Include all supporting documentation.

41. Keith Sloan, in response to Question 6 of his testimony, stated that "the cooperative started an intensified right-of-way reclearing program in the summer of 1987, which continues and will continue in the future."

a. Explain how this intensified right-of-way reclearing program is different from the previous program which was used prior to 1987.

b. Provide expense figures for the current and the previous programs.

c. Explain why South Kentucky is implementing this intensified right-of-way reclearing program.

d. Has this current program reduced South Kentucky's outages?

e. Provide the outages for 1984, 1985, 1986, 1987, and 1988.

42. In response to Question 9, on page 3 of Mr. Sloan's testimony, it is stated "the Co-op's current heating and cooling rate of \$.05327 per KWH (all over 700 per month) is insufficient to cover wholesale power costs."

a. What is South Kentucky's cost per KWH?

b. Provide a breakdown of South Kentucky's cost.

c. Provide the basis for this conclusion and supply a copy of all studies which support this position.

Done at Frankfort, Kentucky, this 5th day of May, 1989.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:

Executive Director